MONTANA DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND (SRF)
FFY 2001 INTENDED USE PLAN
(FFY 2000 AND FFY 2001 CAPITALIZATION GRANTS)

INTRODUCTION

The 1995 Montana Legislature set in motion the creation of a drinking water revolving fund in its passage of HB493. In 1997, the Legislature amended the program with HB483 to make Montana law consistent with the reauthorization of the Safe Drinking Water Act passed in 1996. This legislation, now codified as MCA 75-6-201, et seq, authorizes the Department of Environmental Quality (DEQ) and the Department of Natural Resources and Conservation (DNRC) to develop and implement the program, and it established the Drinking Water SRF Advisory Committee.

The Advisory Committee consists of one state representative, one state senator, one town mayor representing the Montana League of Cities and Towns, one county commissioner representing the Montana Association of Counties, one representative from DNRC and one representative from DEQ. The Committee advises DEQ and DNRC on policy decisions that arise in developing and implementing the Drinking Water SRF, and it reviews the program's Intended Use Plan (IUP).

The Drinking Water SRF Program received EPA approval and was awarded its first (FY 1997) capitalization grant on June 30, 1998. The FY 1998 and FY 1999 capitalization grants have subsequently been awarded. The program offers below-market loans for construction of public health-related infrastructure improvements as well as provides funding for other activities related to public health and compliance with the Safe Drinking Water Act (SDWA). These other activities, or set-asides, include administration of the Drinking Water SRF program, technical assistance to small communities, source water assessment and delineation, operator certification, administration of the Public Water Supply Program (PWSP), and capacity development.

The Drinking Water SRF is administered by DEQ and DNRC and is similar to the existing Water Pollution Control SRF. The majority of the funds come to Montana in the form of capitalization grants through the U.S. Environmental Protection Agency. Montana provides the required twenty- percent matching funds by issuing state general obligation bonds. Interest on the project loans is used to pay the general obligation bonds, thus using no state general funds to operate the program. The repaid principal on the project loans is used to rebuild the Drinking Water SRF fund and to fund additional projects in the future. The federal capitalization grants are only authorized through federal fiscal year 2003; however, federal and state law requires the Drinking Water SRF to be operated in perpetuity.

The 1996 Amendments to SDWA include requirements for each state to prepare an Intended Use Plan (IUP) for each capitalization grant application. This is the central component of the capitalization grant application, and describes how the state will use the Drinking Water SRF to meet SDWA objectives and further the protection of public health. The IUP contains the following elements:

1. Priority list of projects, including description and size of community.
2. Criteria and method used for distribution of funds.
3. Description of the financial status of the Drinking Water SRF Program.
4. Short- and long-term goals of the Program.
5. Amounts transferred between the Drinking Water SRF and the Wastewater SRF.
6. Description of the set-aside activities and percentage of funds, that will be used from the Drinking Water SRF capitalization grant, including Drinking Water SRF administrative expenses allowance, PWSP support, technical assistance, etc.
7. Description of how the program will define a disadvantaged system and the amount of Drinking Water SRF funds that will be used for this type of loan assistance.

As required, DEQ has prepared this IUP and is providing it to the public for review and comment prior to submitting it to EPA as part of its capitalization grant application. Additionally, pursuant to state law, after public comment and review, DEQ will submit the IUP and a summary of public comment to the Advisory Committee for review, comment and recommendations.

PRIORITY LIST OF PROJECTS

To update its comprehensive project list, DEQ has previously sent surveys to all community and non-profit noncommunity water systems in Montana. Approximately 870 public water supplies have been contacted. DEQ and DNRC staff also confer with many of these systems on an on-going basis in an attempt to build as current of a comprehensive list as possible.

Systems that are in significant non-compliance with regulatory requirements must adopt a plan for returning to compliance as part of their Drinking Water SRF funding proposal (if the proposal does not intrinsically address this concern). Projects that primarily expand system capacity or enhance fire protection capabilities may not be eligible for funding unless public health or compliance issues also are addressed by the project.

Appendix 1 contains a comprehensive list of public water systems in Montana that have expressed interest in the Drinking Water SRF, that are planning capital improvement projects, or that have been identified as serious public health risks by DEQ. It is not anticipated that all of the projects in Appendix 1 will use SRF funds. Some systems do not have major projects planned, the remainder expect to be proceeding with projects within the next several years. Cost information is not always available, as some systems had not yet completed the financing plans for their projects at the time the project list was developed.

Limitations on individual project financing

At this point, the anticipated demand for the Drinking Water SRF funds exceeds the supply of these funds. DEQ, DNRC and the Drinking Water SRF Advisory Committee have previously discussed at length whether to attempt to limit the total amount of loans available to any one project and if so, how. The Committee determined that should the actual demand for funds during the period of time covered by an intended use plan exceed the funds available for that same period, then the maximum amount of loan funds available to any one project could not exceed either $5 million or 50 percent of the total capitalization grant amount for that period. Actual demand will not be known until applications are received from those projects ready to proceed within the timeframe of a particular capitalization grant. At that point, DEQ and DNRC, in consultation with the Advisory Committee, will determine whether the limit on individual projects would be applied in that round. To date, no limitations have been placed on the amount of the loan applications.

ANTICIPATED FUNDING LIST

DEQ is now eligible to apply for both the Fiscal Year 2000 and 2001 federal capitalization grants. The following list contains those projects that the Drinking Water SRF program anticipates will be funded with these next two capitalization grants in conjunction with the 20 percent state match. Efforts were made to contact those communities who indicated construction was likely during the 2000 and 2001 construction seasons. This list represents those projects most likely to proceed, starting from the highest ranked projects on the comprehensive priority list (see discussion of ranking criteria in Appendix 2). It is possible that, if other projects are ready to proceed before those on this list, the actual projects that are ultimately funded may vary from those indicated on this list. This did occur during calendar years 1998 and 1999.

1. Clyde Park — Population: 337. Total project cost: estimated $2,000,000. Overall, water system improvements which include development of additional groundwater sources to replace or supplement existing spring and possible storage and distribution system upgrades. Funding sources are undetermined at this time.

2. Cut Bank — Population: 3508. Project cost: $3,234,000, SRF portion: $2,587,000. Amount funded this cycle: $2,304,000. New raw water intake structures, raw and finished water storage reservoirs.

3. Helena — Population: 30,000. Project cost: $1,250,000. Improvements to the Missouri Water Treatment Plant and new storage reservoir.

4. Superior — Population: 980. Project cost: $1,500,000. Purchase water system from private company and install service meters. SRF to provide interim financing.

5. Conrad — Population: 2903. Project cost: $3,100,000. Surface water treatment plant improvements.

6. Great Falls — Population: 56,395. Project cost: $3,000,000. Engineering, distribution improvements and storage tank renovations.

7. Fort Peck — Population: Approx. 500. Total project cost: $8,820,000, SRF portion: $1,520,000. Water Dist Water treatment plant, transmission main, and distribution system improvements.

CRITERIA AND METHOD USED FOR DISTRIBUTION OF FUNDS

The Safe Drinking Water Act amendments of 1986 and 1996 imposed many new regulatory requirements upon public water suppliers. Public health and compliance problems related to these requirements, affordability, consolidation of two or more systems, and readiness to proceed all were considered in developing Montana's project ranking criteria.

DEQ initially proposed balancing these factors, with slightly more emphasis placed on health and compliance and less on affordability and readiness to proceed. In discussions with EPA and with our state's Drinking Water SRF Advisory Committee, it became clear that health risks and compliance issues needed to be given even more emphasis, and that readiness to proceed could be eliminated and handled through by-pass procedures.

Projects that address acute risks that are an immediate threat to public health, such as inadequately treated surface water, were given high scores. Proposals that would address lower risk public health threats, such as chemical contaminants present at low levels, would be ranked slightly lower. Proposals that are intended to address existing or future regulatory requirements before noncompliance occurs also were given credit, but were ranked lower than projects with significant health risks.

The financial impact of the proposed project on the system users will be considered as one of the ranking criteria. The communities most in need of low interest loans to fund the project will be awarded points under the affordability criterion (see Appendix 2).

In addition to the limitations on financing for individual projects discussed earlier in this plan, DEQ is required annually to use at least 15 percent of all funds credited to Drinking Water SRF account to provide loan assistance to systems serving fewer than 10,000 people, to the extent there are a sufficient number of eligible projects to fund.

A summary of the ranking criteria and scoring is listed below. The complete set of scoring criteria is attached to this plan as Appendix 2.

SUMMARY OF RANKING CRITERIA FOR DRINKING WATER SRF PRIORITY LIST

1. Documented health risks
   a. Acute health risks - 120 points maximum
   b. Non-acute health risks - 60 points maximum

2. Proactive compliance measures - 50 points maximum

3. Potential health risks
   a. Microbiological health risks - 25 points maximum
   b. Nitrate or nitrite detects - 25 points
   c. Chemical contaminant health risks - 20 points maximum

4. Construction of a regional public water supply that would serve two or more existing public water supplies - 20 points

5. Affordability - 20 points maximum

FINANCIAL STATUS

The two tables on the following pages summarize the DWSRF expenditures to date and outline financial projections and assumptions for the future. The first table addresses the project loan fund and the other shows the set-aside or non-project activities. This information assumes a federal grant amount of $7,757,000 for fiscal year 2000 and approximately $7,806,300 for fiscal year 2001, matched with $1,551,400 and approximately $1,561,260 respectively, in state general obligation bond funds. The individual capitalization grants and corresponding state match for each fiscal year are listed below.

FFY	Federal Grant	State Match
1997	$14,826,200	$2,965,420
1998	$7,121,300	$1,424,260
1999	$7,463,800	$1,492,760
2000	$7,757,000	$1,551,400
2001	$7,806,300	$1,561,260
TOTAL	$44,974,600	$8,995,100

The FFY2001 capitalization grant could potentially be reduced by 20 percent, or $1,561,560, if Montana does not demonstrate that it has implemented Capacity Development Strategies for existing water systems (Please see discussion of the this activity on page 10.) These funds will be permanently lost if the program is not in place August 6, 2000. DEQ expects to meet the deadline and does not anticipate any reduction in the capitalization grant. However, if this should occur, the project loan fund and set aside activities would decrease by 20 percent respectively.

If Montana does not have its final Operator Certification program submitted to EPA for approval by February 5, 2001, the FFY2001 Capitalization Grant could also be reduced by 20 percent, or $1,561,560 (Please see discussion of the this activity on page 10). In this case too, DEQ expects to meet the deadline and does not anticipate any reduction in its Capitalization Grant. Likewise, however, if this were to occur, the Project Loan Fund and Set-aside Activities would need to be reduced by 20 per cent.

FUNDS AVAILABLE TO THE DRINKING WATER REVOLVING FUND

Source of Funds	Projected thru SFY 2000	Projected for SFY 2001	Total
State Match			
Bond Proceeds	5,882,260	3,112,660	8,994,920
Federal Cap. Grants	29,411,300	15,220,800	44,632,100
Set-Asides	(4,247,568)	(1,097,532)	(5,345,100)
Total to Loan Fund	25,163,732	14,123,268	39,287,000
Loan Repayments	520,000	350,000	870,000
Interest on Fund Investments	162,268	125,000	287,268
Transfer from CWSRF	4,750,328	2,582,187	7,332,515
TOTAL SOURCE OF FUNDS			56,771,703
Use of Funds			
Loans Executed			
Direct Loans	31,946,701		31,946,701
Bond Repayments	162,268	125,000	287,268
TOTAL PRIOR USES			32,233,969
Funds Available for Loan			24,537,734
Projected IUP Loans			
Direct Loans		16,374,000	16,374,000
Projected Balance Remaining			8,163,734

STATE DSWRF SET-ASIDE AND OUTSIDE THE FUND FEE ACTIVITY

Set-Aside	Thru 1999 Grant	Expended Thru SFY00 (Projected)	Balance Available	Planned SFY01	00 Grant Set-aside	Reserved in 00 Grant Applic	01 Grant Set-aside	Reserved in 01 Grant Applic	Total Reserved
4% Administration	$1,176,452	(899,533)	276,919	471,000	310,280		312,252		0
10% State Program									
PWS Supervision	430,270	(245,470)	184,800	184,800	155,000			155,000	155,000
Source Water Protection	305,000	(205,000)	100,000	210,000	75,000		75,000		0
Capacity Development	70,000	(35,512)	34,488	100,000	50,000		50,000		0
Operator Certification	195,000	(125,000)	70,000	70,000	70,000			70,000	70,000
2% Small System Tech. Asst.	588,226	(117,179)	471,047	150,000		155,140		155,140	310,280
15% Local Assistance									
Loan Assistance for SWP*	1,482,620	(164,552)	1,318,068	0					
Capacity Development		0	0						
Source Water Assessment		0	0						
Wellhead Protection		0	0						
Totals	**4,247,568**	**(1,792,246)**	**2,455,322**	**1,185,800**	**660,280**	**155,140**	**437,252**	**380,140**	**535,280**
Fees Outside The Fund	217,636			100,000					
Interest on Fees Outside Fund	5,476			3,500					
Total Fees and Interest	223,112	0		103,500					

- The SDWA only allowed funds for this activity to be set aside one time from the initial FFY97 capitlalization grant.
- Montana elected to set aside the maximum allowable amount of $1,482,620 (10%)

A more detailed description of set-asides may be found later in this plan. Any unused administrative funds will be banked, i.e., placed in an account and used for administration in future years, after federal capitalization grants are no longer available and the program must rely solely on revolving funds.

Current projections show Montana's allocation will be approximately $8 million annually through 2005. At the end of that time, the program is expected to be capitalized and to operate on its own revenue.

One option available to states is to use the federal funds to leverage additional state bond funds. This makes available more money to meet high demands, but it increases the financing costs and thus the loan rate charged to communities and districts. DEQ and DNRC still do not recommend using the program in this manner at this time, and do not currently foresee changing to a leveraged approach. The two departments previously explained the leveraging option to the Advisory Committee and to the people attending the 1997 public hearings, along with their recommendation not to pursue leveraging. The advisory committee concurred, and general agreement with this recommendation was expressed at each hearing.

LONG-TERM GOALS

1. To build and maintain a permanent, self-sustaining state revolving fund program that will serve as a cost-effective, convenient source of financing for drinking water projects in Montana.

2. To provide a financing and technical assistance program to help public water supplies achieve and maintain compliance with federal and state drinking water laws and standards for the protection and enhancement of Montana's public drinking water.

SHORT-TERM GOALS

1. To continue implementation and maintain the Drinking Water State Revolving Fund Program in Montana.

2. To ensure the technical integrity of Drinking Water SRF projects through the review of planning, design plans and specifications, and construction activities.

3. To ensure the financial integrity of the Drinking Water SRF program through the review of the financial impacts of the set-asides and disadvantaged subsidies and individual loan applications and the ability for repayment.

4. To ensure compliance with all pertinent federal, state, and local safe drinking water rules and regulations; and

5. To obtain maximum capitalization of the funds for the state in the shortest time possible while taking advantage of the provisions for disadvantaged communities and supporting the set-aside activities not directly related to the loan portfolio.

TRANSFER OF FUNDS BETWEEN THE DRINKING WATER AND CLEAN WATER SRFS

At the Governor's discretion, a state may transfer up to 33 percent of the Drinking Water SRF capitalization grant to the Clean Water SRF or an equal amount from the Clean Water SRF to the Drinking Water SRF. Transfers could not occur until at least one year after receipt of the first capitalization grant, which was June 30, 1999. DEQ did transfer the maximum amount allowable under the FY 1997 capitalization grant ($4,892,646) from the Clean Water SRF to the Drinking Water SRF at that time. These were "recycled" funds, or funds that consisted of principal repayments from previous loans for wastewater projects. These funds were used to finance seven drinking water projects, utilizing almost all of the transferred amount. Therefore, the maximum amounts from the FY 1998, FY 1999, FY2000, and FY2001 capitalization grants, may likely be transferred from the Clean Water SRF to the Drinking Water SRF when those funds are available for the construction of additional projects. The federal provision that allows the transfers between the two SRF programs is scheduled to terminate on September 30, 2001.

The table below shows the amount of transferred funds available for each Capitalization Grant.

FFY	CAPITALIZATION GRANT	MAX. POTENTIAL TRANSFER AMOUNT
1997	$14,826,200	$4,892,646
1998	7,121,300	2,350,029
1999	7,463,800	2,463,054
2000	7,757,000	2,559,810
2001	7,806,300	2,576,079

No negative impacts are expected to either SRF program in the short or long term. The source of transfer funds shall consist of capitalization grants, state match, loan repayments, and other program funds as determined appropriate by DEQ and DNRC. These transfers are currently necessary due to the excessive demand for financing of drinking water infrastructure improvements throughout the state. Should a similar situation occur in future years with wastewater infrastructure, funds will be transferred from the Drinking Water SRF back to the Clean Water SRF to finance those improvements.

To date, funds transferred from the WPCSRF Program have consisted of only loan repayments.

SET-ASIDES

The Drinking Water State Revolving Fund also is charged with funding certain provisions of the federal Safe Drinking Water Act, through the use of "set-aside" accounts. States are given flexibility to set aside specified amounts of the federal drinking water capitalization grant for specific purposes outlined in federal law; also outlined in state law in MCA 75-6-201, et seq. These set-asides each have different purposes and conditions, and some are mandatory. Montana is continuing to fund the following set-asides, each of which is described in more detail in the following sections:

- administration
- technical assistance for small communities
- capacity development
- operator certification
- public water supply programs
- source water assessment -- program implementation and field data collection
- source water assessment -- delineation and assessment (activity ongoing but w/ no additional set-aside funds.)

ADMINISTRATION

The DEQ will set aside four percent of each of the two capitalization grants, or $622,532 total, for program administration. This will cover continued development of the program and the intended use plan, review of water system facilities plans, review of construction and bid documents, assistance and oversight during planning, design and construction, loan origination work, administering repayments, preparation of bond issuance, and costs associated with the advisory committee and the public comment process. This set-aside also will continue to fund one loan management position at DNRC, up to five engineering positions at DEQ, and one administrative support position at DEQ. These costs and new personnel were approved by the 1997 Montana Legislature.

Any funds that are set-aside for administration but not actually spent will be "banked;" i.e., they will be placed in an account and used for administration in future years, after federal capitalization grants are no longer available and the program must rely solely on revolving funds. Spending such funds is subject to approval of the Montana Legislature, although federal and bond restrictions will limit use of these funds to purposes related to this program.

TECHNICAL ASSISTANCE FOR SMALL COMMUNITIES

This provision allows states to provide technical assistance to public water systems serving populations of 10,000 or less. The Drinking Water SRF program will provide outreach to small public water supply systems through an integrated approach designed to reach: (1) communities whose systems have chronic violations that threaten public health, and (2) communities requesting help to correct operation and maintenance problems or to develop needed water system improvement projects.

The technical assistance effort will focus on operation and maintenance. This will be designed to reach a large number of small systems throughout Montana. Services here will include help with ground or surface source water problems, treatment systems, pumping systems, storage systems, and distribution systems. These problems typically can be corrected by technical assistance and on-site training, which also will help identify recurring problems. Public health risks will be reduced through operator training and system assistance providing immediate solutions and protecting public water supplies.

DEQ will contract most of these services to technical assistance providers within the state. Expenditures will cover contractor salaries, travel expenses and costs related to reporting and follow-up activities. A contract was awarded to Midwest Assistance Program to provide these services in June, 1999. By June 30, 2000, approximately 85 to 90 site visits will have been conducted at a cost of approximately $100,000. Subsequent contract activities will be funded at the maximum 2 percent of the 1998 and 1999 capitalization grant for this set-aside. Furthermore, funds are being reserved from the FFY2000 and FFY 2001 capitalization grants for this activity. However, these funds will actually be used to finance projects in the interim until they are needed for set-aside activities at a future date.

DEQ will evaluate the program, based in part on contractor reports, to identify positive results, recurring problems, and opportunities for improvement. Any changes will be discussed in future intended use plans.

CAPACITY DEVELOPMENT

The 1996 Amendments to the Safe Drinking Water Act allow states to use SRF funds to establish authority to enforce capacity requirements and to implement a capacity development strategy. This will ensure that all new and existing community and non-transient non-community public water supply systems have the necessary technical, financial and managerial capability to comply with all of the primary requirements of the SDWA. EPA also requires that systems demonstrate adequate capability in these areas as a condition of approval for Drinking Water SRF loans.

The State will lose substantial portions of successive capitalization grants if it does not develop and implement strategies to assist existing water systems with capacity development. The portions of the grants that may be lost are 10 percent in FY 2001, 15 percent in FY 2002, and 20 percent of each subsequent year's funds. DEQ is in the process of finalizing these strategies with EPA by October 1, 2000 to avoid the withholding provisions.

The strategies are a methodology that will be used to identify and prioritize public water systems in need of improving technical, financial, and managerial capacity. (A complete copy of the capacity development strategies can be obtained from DEQ.) Part of these strategies include providing assistance to those systems by use of the set-aside funding. The state of Montana has over 1900 public water supplies. Given the large number of systems and a shortage of staff with the requisite financial and managerial experience, MDEQ has chosen to provide these services through a contractor. An RFP is currently being written for a contract that will provide these assistance services. It is anticipated the contractor will provide in-depth financial and managerial assistance to a minimum of 25 public water supplies during the initial contract time period.

The format for financial and managerial assistance is expected to begin with telephone or written contact with the selected water system followed by one or more on-site visits to evaluate the financial and managerial status of the system. Following the site visits, a written report will be prepared and mailed to the system owner or manager, summarizing the observations and recommendations discussed during the evaluation. A copy of any written correspondence must also be forwarded to MDEQ.

OPERATOR CERTIFICATION

The operator certification requests are for $70,000 from each grant. These funds are being "reserved" from the FFY 2001 capitalization grant for this activity, however, they will actually be used to finance infrastructure projects in the interim until they are needed for set-aside activities at a future date. At that time they will be used to fund a portion of the salaries, benefits and operating expenses for three existing full time employees in implementation of the operator certification requirements of the 1996 amendments to the SDWA. The program has already implemented most of the new requirements, and the program manager has made an application to EPA for approval of the program. It is anticipated that the program will receive the first approval granted by EPA in the United States. The work plans will be very similar to those previously approved by EPA.

Program activities include, for both water and wastewater system operators, the examination application and testing process, certification for operator-in-training and fully certified operators, continuing education training and tracking, certification renewal, program review, compliance and enforcement tracking, and holding and attending stakeholder and peer review meetings.

PUBLIC WATER SUPPLY PROGRAM (PWSP)

The supervision set-asides requests are for $155,000 from each grant. These funds are being "reserved" from the FFY 2001 capitalization grant, however, they will actually be used to finance projects in the interim until they are needed for set-aside activities at a future date This set-aside will fund salaries, benefits and operating expenses for two water quality specialists recently hired and assigned to the Billings and Kalispell Regional Offices, respectively. These positions will provide direct assistance to water suppliers in implementation of the Lead and Copper Rule, the Phase 2/5 rules, the Total Coliform Rule, the Consumer Confidence Report Rule, the Interim Enhanced Surface Water Treatment Rule, and Stage I Disinfection/Disinfection By-Products Rule. The set-asides will also fund database development expenses associated with implementation of SDWIS/state and associated state-specific Oracle modules. The work plans will be very similar to the work plan approved for the 1998 supervision set-aside.

SOURCE WATER ASSESSMENT PROGRAM ADMINISTRATION AND TECHNICAL ASSISTANCE

Section 1452(g)(2)(B) of the SDWA allows Montana to set aside a portion of the capitalization grant to "administer or provide technical assistance through source water assessment programs." Set-aside funds in the amount of $75,000 from each of the FFY 00 and FFY01 grants are intended to be used to administer the Source Water Protection Program and to provide technical assistance to local communities in the development of source water protection plans. The source water delineation and assessment reports described in the next section are the basis upon which local source water protection plans are developed. This set-aside helps provide the assistance needed to utilize those technical reports.

The specific goals are to:

- Maintain and enhance public accessibility to spatial data essential to the local development of source water protection plans,
- provide training to PWS operators, managers, and local officials in using source water delineation and assessment reports to develop local source water protection plans,
- develop and publish educational materials and provide outreach to communities on source water protection,
- provide technical assistance to local communities in development of public access to source water protection plans, and,
- provide technical support to non-profit technical assistance providers relating to source water protection plan development.

SOURCE WATER ASSESSMENT PROGRAM DELINEATION AND ASSESSMENT

The SDWA specified that funds for this activity to be set aside only one time from the initial FY 1997 capitalization grant. Upon the recommendation of the Drinking Water State Revolving Fund Advisory Committee, Montana elected to set aside the maximum allowable amount of $1,486,200 (10%), which can fund these activities over a 4 year period.

Section 1453 of the 1996 Amendments to the federal Safe Drinking Water Act (SDWA) requires primacy states to "*carry out directly or through delegation, a source water assessment program.*" A Source Water Assessment Program (SWAP) delineates the boundaries of an assessment area from which public water systems derive their water (surface water or groundwater) and identifies the origins of regulated contaminants to assess the susceptibility of the public water systems to those contaminants. The Montana program was developed according to U.S. EPA guidance and is built around Montana's existing wellhead protection program.

To avoid duplication and to encourage efficiency the source water assessment program uses all reasonably available hydrogeologic information such as data generated by public water system vulnerability assessments, sanitary surveys, routine monitoring, wellhead protection delineations, and delineations or assessments completed as part of a watershed initiative. Emphasis is placed on the use of a geographic information system to ensure the opportunity to use program collected or compiled information within DEQ and other state or federal agencies. Output products of the source water assessment program include maps showing delineated source water protection areas with an inventory of potential contaminants, and susceptibility assessments. The delineation and assessment reports are useful information for future regulatory decisions relating directly to the public water supply program and indirectly to other water quality issues such as water quality standards, watersheds, statewide water quality monitoring, and Total Maximum Daily Loads.

Montana has approximately 2029 public water systems classified as a community, non-transient, or transient. Water from the 827 community and non-transient systems generates greater exposure to potential contaminants than does water from transient systems. Therefore, DEQ developed a source water assessment program that prioritizes implementation based on public water system classification, size, and apparent risk based on source water characteristics.

DEQ developed and is implementing the SWAP using data from local, city, state, and federal governments using agency staff as well as contracting out additional work where necessary. The $1,486,200 set-aside for implementation continues to be used to complete source water delineation and assessment reports Program development included work with the Montana Source Water Assessment Advisory Council and submittal of the state program to EPA for review by February 5, 1999. The Montana Source Water Protection Program was formally approved by EPA in November 1999.

SUBSIDIES TO DISADVANTAGED COMMUNITIES

Communities seeking a Drinking Water SRF loan that meet the disadvantaged community criterion listed below may receive an additional subsidy on their SRF loans, beyond the standard below-market rate financing. This includes communities that will meet the disadvantaged criterion based on projected rates as a result of the project.

A community is considered economically disadvantaged when its combined monthly water and wastewater system rates are greater than or equal to 2.2 percent of the community's Median Household Income (MHI). If the community has only a water system, the percentage is 1.4 percent of the community's MHI. These percentages are consistent with affordability requirements for other state funding agencies in Montana. The water and sewer rates used for this calculation include new and existing debt service and required coverage, new and existing operation and maintenance charges, and normal depreciation and replacement expenses.

To assist these economically disadvantaged communities, the Drinking Water SRF loan program will provide to qualifying communities a partial waiver of the loan loss reserve fee, which will result in an annual 1.0 percent interest rate reduction on the first $500,000 of loan principal. The regular interest rate will apply to the balance of the loan. The total amount of reduced interest rate loans that the Drinking Water SRF may make under any single capitalization grant will be limited to 20 of that capitalization grant. This measure is taken to ensure that the corpus of the Drinking Water SRF fund will be maintained and thus that the program will be able to operate in perpetuity, while still providing some additional assistance to economically disadvantaged communities. Qualifying disadvantaged communities also are eligible for extended loan terms of up to 30 years provided the loan term does not exceed the design life of the project.

Systems that are expected to receive reduced interest rates or extended loan terms in the next year are identified on the "Anticipated Funding List" within the section describing the project list.

Appendix 2: Ranking Criteria for Drinking Water SRF Priority List

1. Documented health risks

a. Acute health risks - 120 points max.

Fecal coliform or other pathogens - two or more boil orders in any twelve-month period. Risk must be documented as a reoccurring and unresolved problem that appears to be **beyond the direct control** of the water supplier.

Surface Water Treatment Rule (SWTR) treatment technique violation - source must have been developed as an unfiltered supply, an inadequately filtered supply, Ground Water Under the Influence of Surface Water, and/or without adequate contact time **prior to the development of EPA** SWTR regulations that would have mandated improved treatment.

Chemical contaminants (other than nitrate or nitrite) - risk must be documented as reoccurring and unresolved problem confirmed through quarterly sampling (or as determined by DEQ) that appears to be **beyond the direct control** of the water supplier. Contaminants must be present at levels exceeding Unreasonable Risk to Health (URTH) levels.

Nitrate or nitrite Maximum Contaminant Level (MCL) violations - MCL violation must be confirmed through routine and check sampling as required by DEQ.

Guidance for ranking: For unfiltered surface water, use 70percent of max. points in this category unless there have also been documented problems with turbidity, fecal contamination or disease outbreaks. Award an additional 10 percent of max points for each of the following: boil order resulting from a turbidity violation, fecal MCL violation, documented disease outbreak. If disease outbreak has been documented, award maximum points.

For filtered surface water systems, a CT violation without boil orders or fecal MCL violations, etc, should receive 50 percent of maximum points under this category. Award additional points for the additional violations.

Example: an unfiltered surface water system has had turbidity violations resulting in a boil order, as well as a fecal MCL violation. There have been no documented disease outbreaks. The system would get 70% + 10% + 10% = 90% of max points in this category.

b. Non-acute health risks - 60 points max.

(Non-fecal) coliform bacteria - two or more Total Coliform Rule (TCR) (non-acute) MCL Significant Non-Compliances (SNCs) automatically qualify if the problem is documented as a regularly reoccurring and unresolved problem that is **beyond the direct control** of the water supplier.

Man-made chemical contaminants - problem must be documented as a reoccurring and unresolved problem that is **beyond the direct control** of the water supplier. Contaminants must be present at levels that are above the PQL, and less than the URTH level. Contaminants must be detected at least twice during quarterly monitoring in any twelve month period. MCL violations may or may not occur.

Natural chemical contaminants - problem must be documented as a reoccurring and unresolved problem through quarterly sampling (or as otherwise determined by DEQ) that is **beyond the direct control** of the water supplier. Contaminant levels must be confirmed as an MCL violation, but the averaged value of the violation must be less than the URTH level.

Guidance for Ranking: Start with 50 percent of maximum points in this category for lead and copper or other chemical violations and go up or down in 10 percent increments depending on the severity of the problem.

2. Proactive compliance measures - 50 points max.

Improvements in infrastructure, management or operations of a public water system that are proactive measures to remain in compliance with current regulatory requirements, to ensure compliance with future requirements, or to prevent future, potential SDWA violations.

Guidance for ranking: If a system is reacting to an existing documented health violation under category 1a or 1b, it should receive no points under this category. Emphasis should be toward a deliberate proactive approach to potential health problems. A system with points awarded in this category typically will currently be in compliance with most or all SDWA regulations.

3. Potential health risks

a. Microbiological health risks - 25 points max.

Occasional but reoccurring detects of coliform bacteria resulting in one or less TCR (non-acute) MCL violation in any twelve month period.

Reoccurring and unresolved problems with non-coliform growth that are beyond the direct control of the water supplier, and result in inconclusive coliform bacteria analyses.

Water distribution pressures that routinely fall below 35 psi at ground level in the mains, or 20 psi at ground level in customers' plumbing systems. Problems must be the result of circumstances beyond the direct control of the water supplier.

b. Nitrate or nitrite detects - 25 points

Occasional but reoccurring detects of nitrate or nitrite at levels above the MCL that occur once or less in a twelve month period. MCL violations are not confirmed by check sampling.

c. Chemical contaminant health risks - 20 points max.

Occasional but reoccurring detects of man-made chemical contaminants that occur once or less in any twelve month period. Levels must be above the PQL, but below the URTH level. MCL violations do not occur because of the presence of the contaminant is not adequately documented through check-sampling.

Occasional but reoccurring detects of natural chemical contaminants (other than nitrate or nitrite) at levels above the MCL that occur once or less in a twelve month period. MCL violations are not confirmed by check sampling.

<u>Guidance for ranking:</u> No additional points should be given in this category for contaminants already addressed in categories 1 or 2. However, if a project scope includes remedies for different types of violations, it should receive points in each of the applicable categories.

4. Construction of a regional public water supply that would serve two or more existing public water supplies - 30 points.

Regionalization would increase the technical, managerial and/or financial capacity of the overall system, would result in some improvement to public health, or bring a public water system into compliance with the SDWA.

5. Affordability (Only one applicable - maximum 20 points)

Expected average household combined water and sewer user rates, including debt retirement and O&M are:

greater than 3.5% of MHI - 20 pts
between 2.5% and 3.5% (inclusive) of MHI - 15 pts
between 1.0% and 2.5% (inclusive) of MHI - 10 pts
1.0% or less of MHI - 5 pts

Drinking Water SRF Priority List Bypass procedures.

If it is determined by DEQ that a project or projects are not ready to proceed or that the project sponsors have chosen not to use the Drinking Water SRF funds, other projects may be funded in an order different from that indicated on the priority list. If DEQ chooses to bypass higher ranked projects, it should follow the bypass procedure.

The bypass procedure is as follows:

1. DEQ shall notify, in writing, all projects which are ranked higher than the proposed project on the Drinking Water SRF priority list, unless it is known that a higher project will not be using Drinking Water SRF funds.
2. The notified water systems shall have 15 calendar days to respond in writing with any objections they may have to the funding of the lower ranked project.

3. DEQ shall address, within a reasonable time period, any objections received.

Emergency bypass procedures.

If DEQ determines that immediate attention to an unanticipated failure is required to protect public health, a project may be funded with Drinking Water SRF funds whether or not the project is on the Drinking Water SRF priority list. DEQ will not be required to solicit comments from other projects on the priority list regarding the emergency funding.